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Archive: How the East Fishkill developers of a luxury housing complex in Highland went bankrupt

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Archive: How the East Fishkill developers of a luxury housing complex in Highland went bankrupt

Investors lost millions of dollars in Vineyard Commons, developed by Mike and Denise Barnett. Learn how it happened.

[Sarah Bradshaw](#), Poughkeepsie Journal Published 12:00 p.m. ET April 9, 2014 | Updated 12:01 p.m. ET April 9, 2014

Mike and Denise Barnett, of Vineyard Commons Holdings LLC, filed Chapter 7 bankruptcy to try to wipe out some of their \$23 million owed to 35 creditors, court documents show. Sarah Bradshaw/Poughkeepsie Journal



A road from Route 299 in Highland, near its intersection with Route 9W, leads to a gravel path at the proposed Highland Square development project. (Photo: Spencer Ainsley/Poughkeepsie Journal)

Published 4/14/13 - HIGHLAND — An engineer and his wife, who tried their hand as developers of housing for affluent seniors, are in bankruptcy, with tens of millions of their investors' dollars left in the lurch.

During the recession, Mike and Denise Barnett of Hopewell Junction developed upscale apartments in Ulster County that opened to tenants July 1, 2010. Trouble struck when some of the luxurious living spaces with high-end rents remained unoccupied as mortgage payments on a federally guaranteed loan came due and then past due, worrying investors.

A closer look at the Barnetts' bankruptcy through court documents paints a picture of a couple who spent above their means — the owners of a \$1 million home said in their bankruptcy filing that their monthly expenses are three times their income. They secured a \$46 million multifamily development loan — insured by a federal housing agency — with the help of wealthy financial backers. And as the apartments were built, the government had no oversight in how millions of dollars were spent, a Journal Freedom of Information Law request uncovered.

Meanwhile, in a last ditch effort, several investors are trying to stop a foreclosure proceeding on the high-end rental community for people 55 and older in Highland called Vineyard Commons.

The Barnetts' bankruptcy is a story of big dreams, big failures and big money.

Their entrepreneurial ambitions — to turn a fruit farming community into a mecca for senior citizen housing — could have serious repercussions for the investors who believed in them. The bankruptcy could wipe out \$20.2 million of the Barnetts' debts, and in turn, some investors could lose their money, court documents in the bankruptcy case show.

Mike Barnett, 43, said the troubled housing market was to blame for his business woes. The market crash was "a horrible, horrible thing," he said, adding he is "done with real estate." Denise Barnett couldn't be reached for comment.

The investors who took the biggest risk on the Barnetts' ventures:

- A Michigan-based lumber company, Universal Forest Products, is owed \$6.7 million for multiple loans.
- Business owners John and Kim O'Donnell of Hopewell Junction could lose \$4.9 million.
- The U.S. Department of Housing and Urban Development's Federal Housing Administration, which took a \$27 million loss on a construction loan it guaranteed for \$46 million.

The Barnetts filed for Chapter 7 bankruptcy Nov. 30 in U.S. Bankruptcy Court in the Southern District of New York. They stated in court documents that they have no assets to repay the \$20.2 million they owe to 29 individuals, businesses and banks, including about a dozen creditors with ties to Dutchess and Ulster counties. Their real-estate ventures have no value, they said in documents, and their projects in the Town of Lloyd — Vineyard Commons and Highland Square — are in the process of foreclosure, court documents show.

Creditors, who made a range of investments from \$25,000 to \$4.9 million, told the Journal they were embarrassed, in too much pain or in the middle of litigation, and couldn't comment specifically on how the Barnetts' bankruptcy affects them.

As an engineer in the International Union of Operating Engineers, Local 30, in Manhattan, Mike Barnett earned \$89,087 in 2011, court documents show. Denise Barnett had no employment income in 2010 or 2011, and earned \$5,000 in 2012 as a receptionist for a doctor in Hopewell Junction. They say their combined net income is \$5,082 a month, while monthly expenses total \$15,465, including a \$7,820 monthly mortgage and second mortgage.

Vineyard Commons

Nearly four months before the Barnetts filed for bankruptcy, on Aug. 15, the U.S. Department of Housing and Urban Development took a \$27 million loss on a loan the agency guaranteed for Vineyard Commons Holdings, Denise Barnett's company. HUD is not a creditor in the bankruptcy case.

HUD spokesman Brian Sullivan said the Barnetts' financial backers helped secure the loan guarantee. "The investors, including Ms. Barnett, had sufficient financial strength to be recommended for the mortgage insurance," he said. The lender, Metropolitan Funding Corp. of New York City, conducted a "thorough" mortgage credit analysis of the applicants, he said.

HUD Multifamily Housing Project participants are required to cooperate with management reviews and submit annual electronic financial statement data used to assess the financial condition of the property, its website states. However, HUD did not require Vineyard Commons Holdings to submit financial data or undergo a management review, according to HUD's response to the Journal Freedom of Information Law request.

That review process begins after construction is completed and the mortgage insurance transaction closes, HUD said. It's unclear why the mortgage transaction for Vineyard Commons hadn't closed between July 1, 2010, when the complex opened to tenants, and Aug. 15, 2012, when HUD auctioned the loan to try to recover part of its investment.

The Vineyard Commons loan was bought at auction for \$18.6 million by True North Management Group, a White Plains company that specializes in financially troubled real estate. The group is managing the property. Mike Barnett said the management group "does not want to be amicable and work these things out." True North didn't return Journal messages.

Since True North took over Vineyard Commons, the tenants have stopped complaining that their concerns weren't being addressed, Town of Lloyd Supervisor Paul Hansut said. "The perception was (the Barnetts) tried to make a bunch of money on the town and take off. There is no one heartbroken that they are not here anymore," he said about the Barnetts' former development projects in the town.

"The bottom line is the property is running," Mike Barnett said about Vineyard Commons. "Nothing collapsed. Everyone was waiting for people to get thrown out. But that didn't happen, did it?"

Highland Square

The Barnetts' other town project, Highland Square — which had no connection to HUD, according to HUD officials — was proposed for 50 acres of vacant land at Route 299 and Route 9W. The plan — stalled by lawsuits — called for building special-needs assisted-living housing surrounded by medical offices, retail and restaurants.

The mortgage holder of Highland Square, Universal Forest Products, successfully fought to remove a bankruptcy court order that had prevented a foreclosure proceeding on the property from moving forward, documents in that court case show. Late last month, a judge ruled that Highland Square should be sold at a public auction with the proceeds going to the creditor, UFP.

The Barnetts owed UFP \$6.5 million plus interest and penalties on Highland Square, court documents show. UFP's lawyer, Penny Hahn, declined to comment.

"It's my understanding now we have to start from ground zero," Hansut said about future development of the property.

Bankruptcy filing

Mark Tulis is the court-appointed administrator of the Barnetts' bankruptcy estate. He manages sales of assets and payments to creditors. He said the Barnetts were "like many real-estate entrepreneurs — a lot of them got very extended and values went down."

Filing for Chapter 7 prevents most creditors from taking actions to collect money or property, including continuing lawsuits and garnishing their wages, according to bankruptcy lawyers.

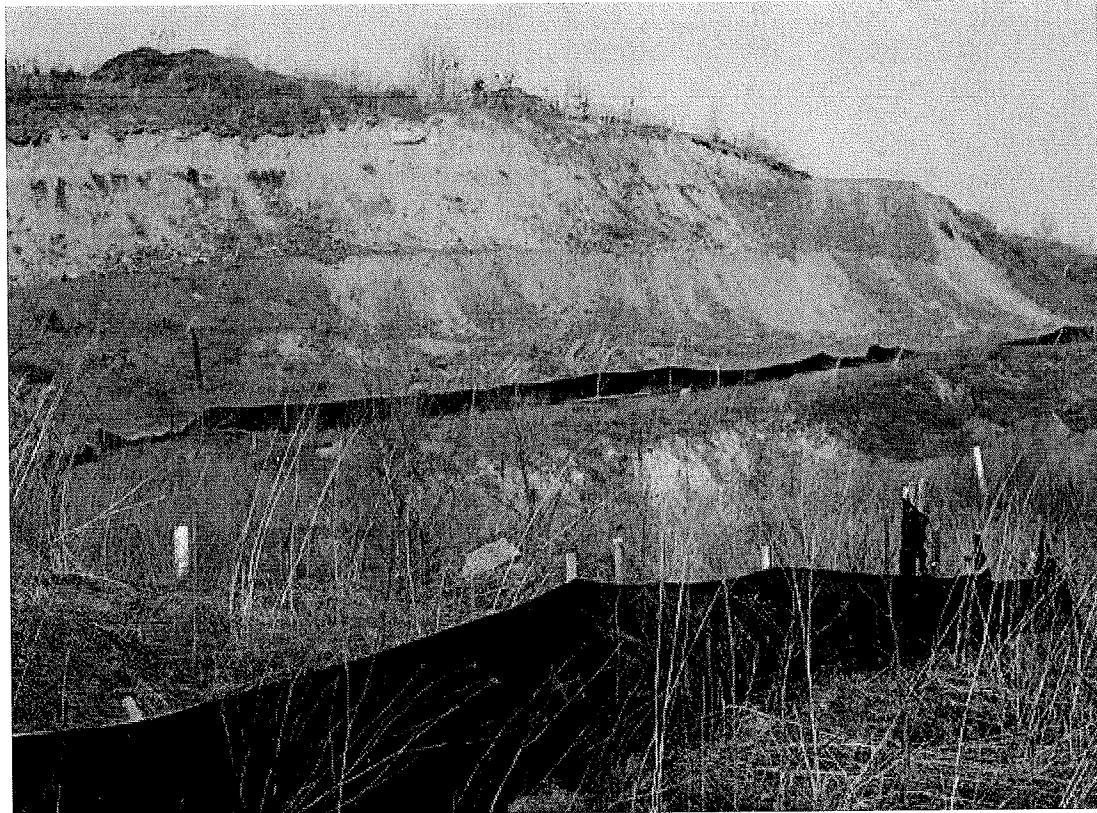
"Ordinarily someone who filed a Chapter 7 has no assets or whatever they have cannot be sold — for example, a house with a big mortgage," said New Windsor bankruptcy attorney Lawrence Klein, who is not affiliated with the Barnetts' case.

Because they owe more than their Hopewell Junction house is worth, the Barnetts hope to keep their residence on Wintergreen Place in Hopewell Junction if they can continue to make mortgage payments, court records show. The four-bedroom, four-bathroom home on 15.53 acres has a market value of \$1.05 million, according to county land records.

The Barnetts said in documents that their creditors, unlikely to be repaid, are business investors, neighbors who loaned them money and credit-card companies owed \$70,000. The list of investors with local ties include Hopewell Junction residents John and Kim O'Donnell, custom home builders who invested \$4.9 million in the Barnetts' multiple real-estate projects. Two of the Barnetts' neighbors are out of \$450,000 combined, for what the Barnetts described in court documents as a personal loan and a business loan used for several of their limited liability companies.

Dr. Spyros Panos, a former Hopewell Junction-based surgeon facing about 200 medical malpractice lawsuits, loaned them \$150,000, court documents show.

The Barnetts amended their filing on Feb. 15 to include the Powelton Club – a private country club with golf, tennis, swimming pool and clubhouse in the Town of Newburgh — as a creditor owed \$5,344.



Buy Photo

At the proposed Highland Square development project located on the north side of Route 299, near its intersection with Route 9W, the only work that appears to have been completed is the grading of the hillside. (Photo: Spencer Ainsley/Poughkeepsie Journal)

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